<u>The Crandall Declaration Ignores That EELs Are Used To Aggregate DS0 Level Loops</u> <u>Critical To The Further Development Of Local Competition</u>

The Crandall Declaration concludes that "a CLEC would not be impaired in the delivery of special access service without access to an ILEC's unbundled loop-transport combinations." Clearly, this conclusion which centers around special access services will also impact any ILEC obligation to offer the loop-transport combination, known as the EEL, for the purposes of aggregating voice grade loops. This is problematic and troubling because the Crandall Declaration considers only evidence concerning *large special access customers* and never considers smaller customers who would typically be served by means of ordinary voice grade loops and EELs.

EELs, as described in the FCC's Third Report and Order, are used to efficiently aggregate DS0 level loops used by many CLECs to enter local markets without the need to engage in the prohibitively expensive replication of local loop facilities²² and to minimize the costs of collocation. The Crandall Declaration, by contrast, focuses almost exclusively on the use of high-capacity facilities to provide special access services – it ignores the use of high-capacity facilities for EELs. In view of this omission, the Crandall Declaration can at most address the question of whether the Commission should continue its current restriction on the use of EELs for special access services, based on the percent of local traffic transported over the facilities. In other words, the Crandall Declaration has not provided any evidence to consider the question of whether the ILECs should be alleviated of their obligation to offer EELs as a means of aggregating voice grade loops. As will be discussed shortly, the Crandall Declaration falls short in other regards as well.

Obviously, EELs can also be used for special access services.

The Crandall Declaration Ignores That EELs Are An Efficient Solution Because They Significantly Reduce Often Prohibitively High Collocation Costs.

An impair analysis should consider cost issues where costs are significant. While the Crandall Declaration purports to perform an impair analysis it fails to consider a significant cost component: the cost of collocation.

The Crandall Declaration borrows from a cost analysis performed by the Cambridge Strategic Management Group (CSMG).²³ The CSMG analysis, however, pertains only to the cost CLECs would incur for constructing fiber facilities: it does not include costs for collocation. In short, the Crandall Declaration totally ignores the most important consideration used by the FCC in finding that ILECs should make EELs available to requesting carriers: collocation costs.

Specifically, in paragraph 288 of its Third Report and Order ("UNE Remand Order") in CC Docket 96-98, the FCC found the following:

288. Need for Enhanced Extended Link. Our conclusion that competitors are not impaired in certain circumstances without access to unbundled switching in density zone 1 in the top 50 MSAs also is predicated upon the availability of the enhanced extended link (EEL). As noted in section VI(B) above, the EEL allows requesting carriers to serve a customer by extending a customer's loop from the end office serving that customer to a different end office in which the competitor is already collocated. The EEL therefore allows requesting carriers to aggregate loops at fewer collocation locations and increase their efficiencies by transporting aggregated loops over efficient high capacity facilities to their central switching location. Thus, the cost of collocation can be diminished through the use of the EEL. We agree with ALTS that, if requesting carriers can obtain nondiscriminatory, cost-based access to the enhanced extended link, their collocation costs would decrease, and they would need to collocate in as few as one incumbent LEC central office in an MSA to provide service. (Emphasis added.)

It is quite clear from this language that EELs are important because they allow CLECs to efficiently aggregate unbundled loops without the need to collocate in each and every office where they obtain unbundled loops. Given the often exorbitant costs of collocation, the cost

savings associated with the use of EELs are significant. Again, nothing in the Crandall Declaration addresses the issue of collocation.

Even if everything that the Crandall Declaration asserted were true, it would still fail to demonstrate that ILECs should no longer make EELs available to requesting carriers. For example, in the absence of EELs, even if high-capacity facilities for interoffice transport were available from alternative providers, the CLECs would still have to collocate in each and every ILEC central office where they use unbundled loops. Clearly, if the cost of collocation were included in the analysis, then, in virtually all instances, the use of alternative high-capacity facilities would be uneconomical. Again, the Crandall Declaration never considers the costs of collocation in its evaluation of whether economically viable alternatives to the ILECs' high capacity facilities are available to the CLECs.

The Crandall Declaration Is Based On A Number Of Fundamentally Incorrect Assumptions

The issue of whether ILECs should continue to be required to offer high-capacity loop and transport facilities on an unbundled basis is one of critical importance to the further development of local exchange competition and, indeed, to the development of the nation's telecommunications infrastructure. While theoretical analyses, such as a weighted probit model used in the Crandall Declaration, has its role in examining economic and social issues, it should not be used as a surrogate for hard evidence where hard evidence is needed.

Furthermore, the Crandall Declaration's modeling exercise is flawed because it is based on two fundamentally incorrect assumptions:

(1) The Crandall Declaration assumes that a CLEC will automatically be able to serve *all* tenants in a building. As a result, the analysis is skewed toward concluding that CLECs will earn sufficient revenues to self-provision fiber facilities.

²³ Crandall Declaration, page 28.

(2) The Crandall Declaration incorrectly assumes that *all telecommunications* revenues – from local non-switched, local switched hi-cap, regional toll, long-distance, and international calling -- associated with a building are available to the CLEC to recoup the cost of self provisioning fiber facilities: it ignores that there are other, significant costs to be covered in addition to the costs of constructing fiber facilities. Even if a CLEC were able to serve all customers in a building, this assumption is false and skews the analysis toward concluding that CLECs can profitably self-provision fiber facilities.

These two flaws are presently discussed in more detail.

Flaw # 1: The Crandall Declaration Erroneously Assumes That CLECs Will Be Able To Serve All Tenants In A Building

Page 29 of the Crandall Declaration discusses a breakeven analysis in which a critical consideration is "the expected telecommunications revenue available for the CLEC for the building that contains a potential special access customer." Specifically, the Crandall Declaration assumes that a CLEC will be able to serve all customers/tenants in a building. This critical assumption is false and renders the rest of the analysis meaningless.

First, building access is by no means guaranteed even if the CLEC would be able to attract all tenants in a building. Further, even if the CLEC obtains building access, there is no guarantee it will obtain access to all floors in the building. The Crandall Declaration ignores any consideration of building access.

Second, the Crandall Declaration presents absolutely no evidence to support the assumption that – building and floor access issues aside – CLECs will be able to attract *all tenants* in a building if it builds fiber to the building in question. The reason for this omission is obvious: the assumption is contradicted by the experiences of most CLECs and leads to an inconsistency in logic with respect to multiple CLECs serving the same building.

First, CLECs still face customer inertia and loyalty toward the incumbent providers which makes it very unlikely that they would be able to attract all customers in a building even in the most favorable of circumstances. Second, many larger customers, even if they are willing to obtain

service from a CLEC, are likely to diversify their suppliers and order only a portion, but not all, of their telecommunications services from a CLEC. Last, buildings that are served by CLEC fiber are typically served by *more than one* CLEC – therefore, the assumption that a CLEC will serve *all customers* in a building to which it has fiber-based access cannot be true for buildings served by more than one CLEC, which according to the Three RBOC Petition is the case for the majority of buildings.

In short, the assumption that a CLEC will serve all tenants in a building is false. Given that the telecommunications revenues associated with a building are a critical factor in the breakeven analysis used in the Crandall Declaration to determine whether or not a CLEC can self provision, the Crandall Declaration greatly overstates the ability of CLECs to self provision high-capacity facilities.

Flaw # 2: The Crandall Declaration Erroneously Assumes That If A CLEC Serves All Tenants In A Building, Then All Telecommunications Revenues Associated With A Building Are Available To CLECs

A footnote on page 30 of the Crandall Declaration discusses which revenues are part of the total revenue associated with a building: revenues from "local non-switched, local switched hi-cap, regional toll, long-distance, and international calling." The analysis then proceeds on the assumption that all these revenues are available to defray the costs of self-provisioning fiber facilities. This assumption is incorrect.

First, the average CLEC is unlikely to be the preferred provider for all of a customer's telecommunications needs: local non-switched, local switched, hi-cap, regional toll, long-distance, and international calling. First, as mentioned above, customers like to diversify their suppliers, so that, for example, they may use more than one provider for their high-capacity data services. Second, even if the CLEC provides 100% of a customer's high capacity data services, it may not be that customer's local service or toll provider. That is, not all customers do one stop shopping. (We have already discussed why CLECs will not capture all tenants in the building.)

Second, even in the exceptional case that a large CLEC, such as AT&T, is capable of serving most or all of a building's telecommunications needs, there are other, significant costs to be covered in addition to the costs of constructing fiber facilities. Clearly, much of the revenues are needed to defray to cost of providing toll, long distance, and international calling and its incorrect to assume – as the Crandall Declaration does -- that 100% of those revenues can be used to defray the cost of laying fiber to get to the building.

As evidenced in Appendix C, Assumptions of the CSMG Cost Model, to the Crandall Declaration, no costs are included in the analysis other than those for constructing fiber facilities. Specifically, the only costs that the Crandall Declaration considers are the following: "(1) customer-premises costs; (2) fiber extension costs, and (3) incremental existing network costs.²⁴" There is no mention of any other costs necessary to serve the new customers' full array of telecommunications needs, the revenues of which are critical in the Crandall Declaration's conclusion that CLECs can profitably self provision high-capacity facilities.

Crandall Declaration: Conclusion

For all of these reasons,, the Crandall Declaration skews its analysis toward a conclusion that CLECs can self-provision high-capacity facilities. As a result, the Crandall Declaration reaches the truly stunning conclusion that no less than 89% of all special access customers in the nation are sufficiently close to CLEC facilities that they can be served by CLECs through self-provisioning of high-capacity facilities. But, not only is this conclusion stunning, it is also incorrect.

²⁴ Crandall declaration, Appendix C, page 42.

CONCLUSIONS

Clearly, CLEC market values have declined dramatically, and, for many carriers, they continue to decline. Since capital funding is increasingly scarce, the number of bankruptcy filings is expected to increase. Only CLECs that were able to obtain adequate funding before the downturn stand a chance of surviving and of obtaining the capital needed to expand their networks. Those companies that do secure financing may have to pay a steep price for it. Contrary to claims made in the Kellogg Huber Report, CLECs cannot self-provision all of the capacity they need to compete with the ILECs. As the financial markets continue to punish the CLEC industry, customers will tend to shy away from uncertain supply sources. For the reasons discussed herein, the Three RBOCs have failed to demonstrate that there are sufficient alternative sources for high-capacity facilities to substitute for the ILECs' facilities at this time. Most certainly, a sudden adverse change in regulatory policy at this juncture would only exacerbate the uncertainty surrounding the economic viability of CLECs and adversely affect their access to financial markets that is so critical to the industry's continued survival.

Wall St. Has More Bad News for CLECs, panel discussion of investment bankers at CompTels' annual convention; February 21, 2001, Warren Publishing, Inc.

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I am an economist and consultant, specializing in public utility regulation. In this capacity, I have provided consulting services in the major telecommunications markets of the United States, such as New York, Texas, Illinois, Michigan, Tennessee, Georgia, and in a variety of smaller states. My consulting activities focus mostly on telecommunications regulation. Specifically, I work with large corporate clients, such as MCIWorldCom, AT&T, AT&T Wireless, and a variety of smaller competitive local exchange carriers and PCS providers. I have represented these clients before state and federal regulatory agencies in various proceedings concerning the introduction of competition in telecommunications markets. Recently, these proceedings focus largely on the implementation of the pro-competition provisions of Telecommunications Act of 1996.

Professional experience:

My professional background includes work experiences in private industry, a state regulatory agency, and academia. I have worked for MCI Telecommunications Corporation ("MCI") as a senior economist. At MCI, I provided expert witness testimony and conducted economic analyses for internal purposes. Prior to joining MCI in early 1995, I worked for Teleport Communications Group, Inc. ("TCG"), as a Manager in the Regulatory and External Affairs Division. In this capacity, I testified on behalf of TCG in proceedings concerning local exchange competition issues. From 1986 until early 1994, I was employed as an economist by the Public Utility Commission of Texas ("PUCT") where I worked on a variety of electric power and telecommunications issues. During my last year at the PUCT I held the position of chief economist. Prior to joining the PUCT, I taught undergraduate courses in economics as an Assistant Instructor at the University of Texas from 1984 to 1986.

Education:

I received a Ph.D. in Economics from the University of Texas at Austin in 1992, an M.A. in Economics from the University of Texas at Austin in 1987, and a B.A. in Economics from Quincy College, Illinois, in 1982.

PROCEEDINGS IN WHICH DR. ANKUM HAS FILED EXPERT WITNESS TESTIMONY:

New York

Commission Investigation into Resale, Universal Service and Link and Port Pricing, New York Public Service Commission, Case Nos. 95-C-0657, 94-C-0095, and 91-C-1174, July 4, 1996. On behalf of MCI Telecommunications Corporation.

In the Matter of Proceeding on Motion of the Commission To Reexamine Reciprocal Compensation, New York Public Service Commission, Case 99-C-0529. Direct Testimony, July 1999. On Behalf Of Cablevision LightPath, Inc.

Proceeding on the Motion of the Commission To Examine New York Telephone Company's Rates for Unbundled Network Elements, New York Public Service Commission, Case 98-C-1357. Direct Testimony, October 1999. On behalf of Corecomm New York, Inc.

Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements, New York Public Service Commission Case 98-C-1357, Direct Testimony, June 2000, on behalf of MCIWorldCom.

New Jersey

Petition of Focal Communications Corporation of New Jersey For Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Bell Atlantic – New Jersey Board of Public Utilities, May 2000. On behalf of Focal Communications Corporation of New Jersey.

Delaware

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Texas

Petition of The General Counsel for an Evidentiary Proceeding to Determine Market Dominance, PUC of Texas, Docket No. 7790, Direct Testimony, June 1988. On behalf of the Public Utility Commission of Texas.

Application of Southwestern Bell Telephone Company for Revisions to the Customer Specific Pricing Plan Tariff, PUC of Texas, Docket No. 8665, Direct Testimony, July 1989. On behalf of the Public Utility Commission of Texas.

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Petition of Southwestern Bell Telephone Company for Authority to Change Rates, PUC of Texas, Docket No. 10382, Direct Testimony, September 1991. On behalf of the Public Utility Commission of Texas.

Application of Southwestern Bell Telephone Company, GTE Southwest, Inc., and Contel of Texas, Inc. For Approval of Flat-rated Local Exchange Resale Tariffs Pursuant to PURA 1995 Section 3.2532, Public Utility Commission of Texas, Docket No. 14658, January 24, 1996. On behalf of Office of Public Utility Counsel of Texas.

Application of Southwestern Bell Telephone Company, GTE Southwest, Inc., and Contel of Texas, Inc. For Interim Number Portability Pursuant to Section 3.455 of the Public Utility Regulatory Act, Public Utility Commission of Texas, Docket No. 14658, March 22, 1996. On behalf of Office of Public Utility Counsel of Texas.

Application of AT&T Communications for Compulsory Arbitration to Establish an Interconnection Agreement Between AT&T and Southwestern Bell Telephone Company, and Petition of MCI for Arbitration under the FTA96, Public Utility Commission of Texas, Consl. Docket Nos. 16226 and 16285. September 15, 1997. On behalf of AT&T and MCI.

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Iowa

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Illinois

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AT&T's Petition for an Investigation and Order Establishing Conditions Necessary to Permit Effective Exchange Competition to the Extent Feasible in Areas Served by Illinois Bell Telephone Company, Illinois Commerce Commission, Docket No. 94-0146. September 30, 1994. On behalf of Teleport Communications Group, Inc.

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Citation to Investigate Illinois Bell Telephone Company's Rates, Rules and regulations For its Unbundled Network Component Elements, Local Transport Facilities, and End office Integration Services, Illinois Commerce Commission, Docket No. 95-0296, January 4, 1996. On behalf of MCI Telecommunications Corporation.

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Massachusetts

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New Mexico

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Michigan

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In the Matter, on the Commission's Own Motion, to consider the total service long run incremental costs and to determine the prices for unbundled network elements, interconnection services, resold services, and basic local exchange services for Ameritech Michigan, Michigan Public Service Commission, Case No. U-11280, March 31, 1997. On behalf of MCI Telecommunications Corporation.

In the matter of the application under Section 310(2) and 204, and the complaint under Section 205(2) and 203, of MCI Telecommunications Corporation against AMERITECH requesting a reduction in intrastate switched access charges, Case No. U-11366. April, 1997. On behalf of MCI Telecommunications Corporation.

Ohio

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Indiana

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Exercise in Part Jurisdiction over the Petitioner's Provision of such Services, Pursuant to I.C. 8-1-2.6, Indiana regulatory Commission, Cause No. 40178, October 1995. On behalf of MCI Telecommunications Corporation.

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Rhode Island

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Vermont

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Wisconsin

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In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Wisconsin Bell, Inc. d/b/a Ameritech Wisconsin, Wisconsin Public Service Commission, Docket Nos. 6720-MA-104 and 3258-MA-101. On behalf of MCI Telecommunications Corporation.

Investigation Into The Establishment of Cost-Related Zones For Unbundled Network Elements, Docket No. 05-TI-349. Rebuttal Testimony, September 2000. On behalf of AT&T Communications of Wisconsin, McLEODUSA Telecommunications Services, Inc., TDS MetroCom, Inc., and Time Warner Telecom.

Pennsylvania

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Georgia

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Tennessee

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Commonwealth of Puerto Rico

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Board, Docket No. 97-0034-AR, April 15, 1997. On behalf of Cellular Communications of Puerto Rico, Inc.

CERTIFICATE OF SERVICE

I hereby certify that the foregoing Comments of Mpower Communications Corp. have been served by hand delivery to the persons on the attached list.

Candise M. Pharr

Date: June 11, 2001

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